Tells the Facts and Names the Names

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Power Play:

The Biggest Game in Town

It's a scandal the size of the savings and loan debacle of the late 1980s, which forced a bail-out costing taxpayers $300 million. We have unfolding before us now one of the most amazing pieces of corporate brigandage in the history of the Republic: it stems from the deregulation of the energy industry, notably the utilities that provide electricity to every business and household in the country.

There's a problem in covering this story, which may explain why the banditry in progress has thus far been virtually unreported. People shy away from stories about utilities. They regard them as boring and arcane, like conferences on the Law of the Sea. Also, middle-class people don't regard utility bills as the biggest problem in their lives, unlike tax or interest rates. So a convulsion of huge importance is now ongoing with no public scrutiny, although it is one that will cost the public upwards of $500 billion.

For most people, the first intimation of the upheaval came on Superbowl Sunday, January 26. In the numerous intermissions in Fox's five-hour coverage, Whoopi Goldberg and Liz Taylor sang the praises of the largest natural gas company in the world: Enron. The Houston-based global kraken, pan-tentacled, its blood the flow of money, used this venue to lobby the largest TV audience of the year in favor of federal deregulation of the electric utilities.

Why is Enron, a natural gas company, devoting millions to the topic of electricity deregulation? Because Enron is in the process of buying up electrical utilities across the country. The most recent one it engulfed – the largest power merger to date – was Portland General Electric, a $3.2 billion deal announced in July of 1996. To get an idea of how easy life is for Enron today as it expands its global empire, consider what would have happened 25 years ago if such a take-over had been attempted. It was Richard Nixon, after all, who rallied to the cause of energy independence and who began funding alternative energy projects. In Congress, men like Wright Patman and Jim Abourezk would have held savage hearings, all pillorying the Enron executives for their unwholesome eagerness to monopolize the energy industry and hike prices.

But today Enron has its bases nicely covered. There will be no uproar in Congress from liberal Democrats because there is no longer an appetite – or even the necessary knowledge – among congressional staffers to organize vigorous hearings; also because Enron has taken the precaution of hiring Robert Crandall, senior fellow at the Brookings Institute, to produce a study promoting the benefits of deregulating electric utilities. Crandall dutifully concludes that the past century's efforts to control the big utilities and provide universal service and affordable rates have been destructive. "It's a study of government failure, of regulatory failure," Crandall wrote as he pocketed Enron's substantial fee. To promote the Enron line Crandall will teach a seminar on the subject in February at a Baltimore retreat for congressional staffers from the Energy, Environment and Commerce committees.

Enron is not the only behemoth in the field. The big industrial power consumers – corporations such as Boeing, Raytheon, and Intel – and independent power producers have been pushing for utility deregulation for a decade. The reason is that the price of natural gas has sunk by as much as 75 percent since the mid-1980s. Not only have new sources

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come on stream but new combustion-turbine technologies have enabled natural gas to be used in electricity generating plants, with electric power produced at rates two to three times lower than was possible with old plants fired by coal or nuclear power.

The huge utilities such as Southern California Edison and New York's Con Ed are stuck with these old plants. They were thus in a poor position when their major industrial users came to them demanding lower rates reflective of the cheaper new natural gas technology. Having sunk billions into the big nuclear plants, these utilities couldn't shift over nor could they afford to give the big industrial consumers basement rates. So the industrial users threatened to take their business to independent power producers such as Enron or simply to build their own low-cost generating plants. But in order for this to happen both the industrial users and the independent power producers had to break the utilities' legal monopoly over the production, transmission and sale of electricity.

Their hopes are now vested in deregulation bills promoted by Rep. Daniel Schaefer of Colorado and that friend of the rich and the powerful, Senator Al D'Amato of New York. Schaefer paints a glowing vista of virtually unlimited flexibility of choice for the consumer. To lend sinew to such rhetoric, armies of lobbyists have been unleashed on the Hill.

Most formidable of all elements in the deregulation coalition is the Electricity Consumer's Resource Council, otherwise known as Elcon, a slice of the Fortune 500 in the form of the thirty top corporate energy consumers in the country: General Motors, Ford and DuPont. The electric utilities, battling to save their monopoly and protected profits, have assembled their own coalitions, including the brazenly named Alliance for Competitive Electricity and the Edison Electric Institute.

Here in the narrative, our readers' sympathies may be drifting towards Enron and the independent power producers which at least offer lower rates. And if the readers happen to be major stockholders in large industrial corporations they will be right. Eugene Coyle, an economist who studies the utility industry, puts it this way: "What we are looking at is the shift from a situation where there are more than a thousand utilities nationwide over which rate-payers have some control to a future where will be perhaps ten big power companies operating free of regulation and acting like the oil cartels of old. The benefits of deregulation will go to the big industrial buyers who will sign 10-year contracts with companies like Enron and pay perhaps three cents per kilowatt hour, while residential customers and small businesses end up paying eight to nine cents."

We now come to the topic of "stranded costs", described by John Bryson, CEO of Southern California Edison, as the "make or break issue". The word "stranded" here is used in the sense of "beached", as in a beached or stranded whale – the whale in this case being nuclear power plants. Utility men usually call them "stranded assets", a decorous way of invoking a mountain of debt and potential liability with a half life of several million years. The electric utilities would like to rid themselves of their costly, aging, unsafe nuclear plants. Their dream is to unload the $500 billion in debts on these nuclear plants and other mature facilities onto rate payers and taxpayers, instead of their shareholders.

The utilities insist that if deregulation is to take place and they surrender their monopoly, the albatross of the nukes should be handed amid furtive rites to the taxpayer in a bail-out bigger than the S&L scandal. Martha Hewitt at the Center for Energy and the Environment makes the salient point: "Allowing the utilities to recover stranded costs would give the greatest reward to those utilities that made the worst business decisions. What other industry can tap widows and orphans to undo $500 billion in past mistakes?"

This is exactly what happened in California in the fall of 1996. At the midnight hour, on September 15, the state assembly unanimously passed a bill deregulating the state's utilities and soaking the rate-payers for $28 billion. The money covered the utilities' disastrous investments in the Diablo Canyon and San Onofre nuclear plants. The cost will be paid by a hidden tax on the utility bills of unsuspecting residential rate payers. In addition, the utilities convinced the legislature to underwrite another $5 billion in subsidies through taxpayer-financed bond issues.

Southern California Edison and Pacific Gas and Electric, the state's two largest utilities, doled out more than $3 million in 1996 alone in political contributions and lobbying expenses to slide the bill through. The bill was drafted by a Southern California Edison lobbyist, who temporarily joined the staff of the state senator leading the deregulation effort. Wendy Wendlandt of Californians Against Political Corruption calls it "one of the greatest consumer robberies in California history".

The California approach, rightly denounced by Wendlandt, has been lauded as a national model by a rather surprising organization: the Natural Resources Defense Council. NRDC's energy guru is Ralph Cavanagh, who recently received an eco-genius award of $250,000 for his work on utility issues from Teresa Heinz's environmental foundation. Since the early 1990s Cavanagh has been working in what he demurely terms a "collaborative process" with utility companies, though he noted accurately enough in an interview in *In Context* magazine that "the term collaboration still has overtones of Vichy France". And so it should.

(continued on p. 5)

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Is It the Khan? No ...

It's ... it's the Messiah!

The cold war is over, the Soviet Union is gone and the once mighty Red Army cannot afford to feed, let alone pay, its troops. But without an enemy the US military cannot sustain its budget, which is why the keenest impresarios in the US defense intelligentsia are diligently scouting for a twenty first century threat.

A secret document prepared at the Air University at Maxwell Air Force Base in Alabama and now circulating among the upper ranks of the US Air Force lists a variety of possibilities. Peering into the second decade of the coming millennium, the document posits the emergence of a terrifying specter called The Khan (as in Genghis). By this the "futurists" mean an aggressive and horrifyingly swollen China, having engorged the entire Korean Peninsula, not to mention Japan and, possibly, Vietnam. The Khan will be an economic superpower and thus able to develop and produce the most advanced forms of weaponry. It therefore follows that US defense spending will have to rise commensurately to defend the west against the rough Asian beast.

The Air Force soothsayers also proffer "Gulliver's Travails", a scenario in which the US giant, still the only superpower, is forced to police a globe riven by vicious local conflicts. A Pentagon official explains: "The Bear is dead, but the woods are full of snakes." To help Gulliver deal with the snakes the Air Force has already given a contract to the Lockheed-Martin Corporation to study development of a "Trans Atmospheric Vehicle", a sub-orbital space plane, which will be able to transport troops to trouble spots around the world in minutes rather than hours. This is part of the Pentagon's strategy, laid out in a public document titled *Global Engagement: A Vision for the 21st Century Air Force*, to "transition from an *air* force into an *air and space force* on an evolutionary path to a *space and Air Force*".

These are not the only formulations under development by the Air Force for future budget justification. Among other possible threats on the horizon are listed "asteroid strikes earth," just before "appearance of a 'Messiah'," to be crucified by huge new appropriations. Elsewhere in the Pentagon, officials are invoking the menace of "Peer Competitors", by which they mean China (though not yet grown to Khan dimensions) and, bizarrely, Russia. Yet others talk of GET, which stands for Generic Emerging Threat.

We should not assume that even today, with no Khan in sight, the Pentagon is suffering unduly. Seven years after the Wall came down, the defense budget, at $260 billion, is running at the same rate in "constant dollars" (i.e., adjusted for inflation) as in the tense years of the 1950s. It has declined only 23 percent from its all-time peak under Ronald Reagan. The numbers of troops and weapons have indeed declined – by as much as half in some areas – but the difference can be accounted for by the increased costs and profits extracted by the defense industry. Defense contractor share prices have soared 30 percent in the past year.

Military planners are working overtime to create the "national security threats" needed to jack up the Pentagon's budget

"Everyone here is euphoric", one air force official tells us. It is not hard to see why, given reassuring statements from on high. During the Presidential campaign, Vice President Al Gore went out of his way to state that "it is the Republican defense budget, not President Clinton's, that drops in the next century. President Clinton's does not. It increases." General Ronald Fogleman, Chief of Staff of the Air Force, recently assured his senior staff: "Don't worry about the budget, Congress is friendly". Franklin Raines, President Clinton's powerful budget director, has assured the generals that "We will protect your purchasing power".

Contractors find further cause for jubilation at the news that Paul J. Kaminski, under secretary for acquisitions, who played a key role in the total abandonment of management controls during the murky stewardship of outgoing Defense Secretary William Perry, will stay on to supervise the trough. Newt Gingrich, meanwhile, has announced that he would like to turn the Pentagon into a "triangle", by which he presumably means streamlining the flow of money from the taxpayers' pockets, with a brief stop-off at DoD to its third and final resting place in the contractors' bulging coffers.

Small wonder therefore, that internal Pentagon studies show a doubling of the US defense budget over the next twenty years. If no Threat emerges to justify the spending, it will be the work of a moment to invent one. ■

He Should Know

We at **CounterPunch** have frequently reported on corporate grassroots campaigns, whereby big business creates bogus citizens' groups to push its agenda by stealth. The Public Affairs Council, the pr industry's trade group, is now promising to set the record straight about corporate campaigns at its upcoming national conference in Key West, Florida.

O'Dwyers Washington Report, which covers the pr industry, notes that the public increasingly views corporate-created citizens groups as nothing more than cover for their corporate masters who are bankrolling the campaigns. To dispel this entirely accurate perception, the Council will hold a panel, "Grassroots Under Fire", that will be led by Neal Cohen of APCO Associates.

CounterPunch readers may recall that Cohen is the creator of the Citizens Against Lawsuit Abuse groups, which seek to limit frivolous lawsuits against corporations. Of course, these groups don't reveal who their funders are – the New Jersey branch was paid for by chemical and asbestos companies. Cohen also worked with Contributions Watch, the supposed campaign finance reform watchdog that was paid for by the tobacco cartel.

So the Council has chosen the perfect man for the job. The pr flack will also talk of the ethical standards involved with grassroots work and tell the audience how to keep a grassroots program beyond reproach. Ho ho ho. ■

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The Kingdom and the Power
(And a Cast of Billions)

Like Turkey, Israel, Indonesia and a few other nations, Saudi Arabia is reckoned to be so vital to US national security that its standing in Washington is unassailable. This very special relationship with the US was reaffirmed last year when — in circumstances barely noted by the press — Congress and the White House defended Riyadh's right to employ torture against not only its own subjects but American citizens as well.

The Saudi government has long been an important US ally. A post WWII State Department analysis called its oil resources a stupendous source of strategic power, and "one of the greatest material prizes in world history," as well as a vital interest to be protected from the Soviet Union. More recently Saudi Arabia has emerged as a significant site for US corporate investment. While oil is still the fluid nourishing the US-Saudi relationship together, American firms have a significant role in nearly all sectors of the Saudi economy with total direct investment now standing at $12 billion.

Of course, US weapons makers have the keenest interest of all. Between 1983 and 1990 the Saudis bought $57 billion worth of American arms and since then have placed orders for another $30 billion. Though recent deliveries have been slowed owing to unexpected economic troubles in the Kingdom, a 1994 Pentagon report predicts that Saudi Arabia will remain the world's largest arms importer for the rest of the decade.

Such close ties bring their minor embarrassments. Human Rights Watch's 1997 report described Saudi Arabia as "an absolute monarchy [that violated] a broad array of internationally recognized civil and political rights. It allowed no criticism, political parties, or other potential challenges to its rule. The government employed arbitrary arrest and incommunicado detention, torture, corporal and capital punishment to suppress and intimidate opposition."

The Saudis' wretched human rights records has rarely troubled policy makers in Washington. In 1994, the Clinton administration issued a formal apology to the Kingdom after a State Department spokesman had the temerity to suggest during a press conference that the United States "does have serious concerns about human rights" in Saudi Arabia.

Now consider the cases of Scott Nelson and James Smrkovski, both of whom have been seeking damages from the Kingdom after horrific experiences in Saudi jails. Nelson was tortured and permanently crippled after he reported that Saudi superiors in a hospital he worked at had failed to correct a safety violation. Smrkovski was arrested on false charges of smuggling alcohol and released after 454 days in prison, where his jailers pulled out his toe nails and carried out other random acts of kindness.

Sen. Orrin Hatch refused to support the bill because Saudi Arabia "felt it would do irreparable damage" to Saudi-US relations

Unfortunately for Nelson and Smrkovski, the Foreign Sovereign Immunities Act prohibits almost all lawsuits in the US against foreign governments. A case brought by Nelson reached the Supreme Court in 1992, but the justices ruled in favor of the Kingdom. That decision was supported by the Bush administration, which had filed an amicus brief in support of Riyadh.

Nelson recruited allies in Congress and last summer legislation was introduced that would have opened an exemption to the Foreign Sovereign Immunities Act in cases where foreign governments committed acts of state violence, such as torture, against US citizens. The measure easily passed in the House and appeared headed for certain victory in the senate when the White House stepped in, claiming that passage of the bill would provoke a flood of frivolous lawsuits against foreign governments. Clinton's then chief-of-staff, Leon Panetta, furiously lobbied key senators, admitting privately that the bill would provoke the wrath of Riyadh and was therefore unacceptable.

One **CounterPunch** informant who closely tracked the measure says that arms contractors also went to bat for the Saudis. "When we went for the final push we heard the same thing from many [members of Congress], this person said. 'I've got Boeing or Lockheed in my state. What am I going to do if the Saudis cancel a contract over this bill?'" Our informant tells us that staffers for Sen. Orrin Hatch of Utah — a state with large investments from weapons makers — made clear that the senator would not support the measure because the Saudi government "felt it would do irreparable damage to relations" between the two countries.

Another curious case was that of North Carolina's Jesse Helms, who had long supported Nelson, now a resident of the senator's home state. Last May the Saudi ambassador to the US, Prince Bandar, flew in to Wilmington for an international trade conference. There he promised to rapidly expand trade between North Carolina and Saudi Arabia, which already buys $1.5 billion annually in state exports. Soon after the trade conference Helms dropped his backing of the amendment to the Foreign Sovereign Immunities Act.

Nelson's backers agreed to modify the bill to meet supposed concerns about the filing of frivolous law suits — for example, people who wanted to sue would first have to offer to have their claims arbitrated. Even this change was not sufficient to win support for a bill that would have opened the door to lawsuits against the Saudis and other US allies. In the end the senate passed the bill, but modified it so that US. citizens could only sue countries listed as backers of "terrorism" by the State Department, meaning Cuba, Iran, Iraq, Libya, North Korea, Sudan and Syria. A modest step forward, perhaps, but since virtually no US citizens reside, work or travel to those countries the bill's practical impact is nil.

Senator Daniel Patrick Moynihan, who sponsored the bill to amend the Act in 1996, has promised to try again this year. Still, we wouldn't bet that Nelson and Smrkovski are able to sue the Saudis any time soon. ■

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Like a Fox Building a Chicken Coop

Prison laborers will soon be making a good portion of the bullet-proof vests and body armor used by law enforcement agencies.

UNICOR, the trade name for the federal prison labor program, has no need to compete for business because it is simply awarded market share by UNICOR's board of directors. To ensure that it meets its targets, UNICOR can require companies to buy prison-made products. UNICOR broke into the protective clothing field in 1993 and within two years had won – by decree – an eight per cent market share, which went to 25 per cent. last year.

Law enforcement officials have quite naturally viewed the request with disquiet. At a public hearing called to discuss the proposal, David Bernard of the International Brotherhood of Police Officers said that he had a "fundamental philosophical problem with federal prisoners manufacturing life support products for the community that incarcerated them in the first place". The proposal was also opposed by private sector companies manufacturing protective gear.

Despite such opposition, UNICOR's board predictably decreed that it should be given the requested 25 percent share – two-and-a-half times higher than that held by any of its competitors. In announcing the decision, UNICOR said that the chief outcome of expanding its production would be to create "additional inmate jobs, which teach work skills and enhance the prospects for employment and successful reintegration upon release".

But Dan Pens, who wrote about this issue in *Prison Legal News*, points out that unemployment in the apparel industry is growing and already stands at 9.8 percent, far above the national average. Apparel industry employment is rising in Third World maquiladora sweat shops, though, and Pens suggests that upon release, prisoners move to El Salvador and look for work there. ■

(Biggest game, cont. from p. 2)

Cavanagh has been negotiating with the two major utilities in California, PG&E and Southern California Edison, on what's known as demand-side management, meaning conservation strategies, such as better insulation, planting of shade trees, efficient light bulbs and so forth. No bad thing in and of itself, but according to Daniel Berman, co-author of the excellent *Who Owns the Sun?*, "Cavanagh and NRDC refuse to confront the utilities over existing nuclear power plants, lack of investment in renewable energy resources and they look the other way when the subsidiaries of the large utilities build fossil fuel plants elsewhere in the United States and overseas."

The reference to "overseas" plants is pertinent. As Cavanagh palavers amiably with Southern California Edison about storm windows, the company is taking its cut of the $28 billion and investing a portion of it in filthy coal-fired plants in Indonesia, China and Australia. PG&E, through its subsidiary US Generating Company, has made similar investments in the Far East.

NRDC issues a yearly rating of the "best" utilities in the country, based solely on an analysis of their carbon emissions in the state where they are headquartered. Southern California Edison and PG&E have consistently ranked in NRDC's top five despite their hostility toward renewable resources, their dependence on nuclear power and their filthy overseas plants. In a full-page ad in the San Francisco Chronicle by PG&E, Cavanagh proclaimed: "PG&E programs benefit every sector of the economy. The farmer, the factory owner or the family of four can save money and improve the environment through PG&E's various energy efficiency efforts."

The praise heaped on Southern California Edison is even more curious, since nearly 15 percent of its electricity is generated by a coal-fired plant across the state line in Laughlin, Nevada. The plant, which is equipped with minimal pollution control devices, is notorious for having some of the worst emissions in the nation. Its smoke shrouds the Grand Canyon in a perpetual miasma and its generators are fired by coal stripped off Black Mesa on the Navajo reservation by the Peabody Coal Company.

There are not only ideological but also personal ties involved here. John Bryson, CEO of Southern California Edison, is one of the founders of the Natural Resources Defense Council. NRDC is not the only environmental group with such connections. AES Corporation is one of the nation's largest independent power producers. Its CEO, Roger Sant, serves as the chairman of the board of the World Wildlife Fund, a group that also touts the virtues of deregulation. Moreover, John Sawhill, CEO of the Nature Conservancy, perhaps the most prominent of Wall Street environmentalists, has a seat on the board of PG&E.

This confluence of interests is expressed politically in the Energy Foundation, a group based in San Francisco. The foundation was created in the late 1980s by three of the largest foundations in the country: Rockefeller, MacArthur and Pew. Its goal is to promote green capitalism on energy issues by doling our $17 million a year to a variety of environmental groups and consumer alliances pushing for low energy costs for the poor and moderate income folk. These alliances are well aware that as deregulation rolls forward there will be no guaranteed service, and no regulatory structure to

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advocate and protect it. "Industries that provide energy for basic human survival, such as heating and cooling, ought to be overseen by a body whose duty it is to maintain those services for everyone and to ensure against the public harm that energy tragedies can cause," says Pam Marshall of the EnergyCENTS coalition in Minneapolis. Marshal says that over 100,000 Minnesota households may be at risk of losing their heating if the deregulation forces triumph.

But many groups that might have been expected to make such arguments have fallen strangely silent. The reason seems simple: they have been blessed with dispensations from the Energy Foundation. According to Coyle, who once worked for a Bay Area group called TURN (aka Turn Toward Utility Rate Normalization), "the Energy Foundation has threatened to strip funding from groups that have opposed its deal-making with the utilities."

Indeed, Berman aptly calls the Energy Foundation "a money laundering operation". Rockefeller and Pew – both with endowments deriving from oil – fund the Energy Foundation which duly remits large sums to groups such as Cavanagh's NRDC, which then advocates exactly the policies desired by the big energy companies. Since 1990, NRDC has received over $2 million from the Energy Foundation and has been able to direct the flow of millions more to groups that will parrot the NRDC energy line.

In the final episode of our story, the trail now heads back to Enron. In July of 1996, Enron announced its imminent takeover of Portland General Electric. Rather than challenging the takeover with the Federal Trade Commission on anti-trust grounds, a coalition of "public interest" groups came out in favor of the merger, citing Enron's sensitivity toward environmental and rate-payer issues. This came as something of a shock to many environmentalists in the Northwest, who note that Enron has lavishly funded wise-use movement attacks on the Endangered Species Act and that its CEO Kenneth Lay served as chairman of the loathsome Phil Gramm presidential campaign.

In exchange for testifying on Enron's behalf, the big enviro-corporate players will receive a variety of pecuniary rewards.

We have a copy of the Memorandum of Understanding signed by Enron and thirteen conservation and community organizations, headlined by the NRDC. It was proudly faxed to us by Enron. In exchange for testifying before the Public Utility Commission and the Federal Energy Regulatory Commission in favor of the merger (their travel expenses generously picked up by Enron), the groups will receive a variety of pecuniary rewards. For example, Northwest Environmental Advocates will receive $30,000 from Enron for a Riverwatch program. The Native Fish Society will receive $20,000 for its hatchery reform campaign. Oregon Trout's Salmon Watch program will rake in $15,000. The thirteen groups as a whole receive $75,000 to hire someone to testify at the Public Utility Commission hearings on the economics of the merger. Larger slices are going to big enviro-corporate players such as the Nature Conservancy. Ralph Cavanagh showed up at the press conference announcing the deal and exulted that the Enron merger with Portland General Electric "is a national model for the industry".

Cavanagh's position came as no surprise to many Portland foes of the utility. In 1992, the NRDC man rushed to Portland to bail out PGE's ailing Trojan nuclear power plant, which was threatened by ballot initiatives that aimed to shut down the plant and make sure the shareholders rather than the rate payers paid the price. Cavanagh signed on to PGE's pre-election pr campaign which promised to close Trojan within four years, while transferring most of the costs to residential consumers. "Utilities won't do the right thing," Cavanagh said at the time, "if you inflict a fiscal equivalent of capital punishment on them." The pr campaign worked and the anti-Trojan initiatives went down to defeat. A week after the election cracks in the nuclear plant's cooling pipes released radioactive steam and Trojan was shut down for good. The rate payers are paying the bill. ■

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